

Six Key Areas of HR Metrics:

- Overall HR function
- Recruitment
- Training and development
- Compensation
- Benefits
- Organizational effectiveness

APPENDIX A: FREQUENTLY UTILIZED HR METRICS

- A 2001 survey of 270 companies conducted by the Corporate Leadership Council which included companies such as **American Express Company, IBM Corporation, United Airlines** and **Pfizer**, identifies metrics across six key areas of HR—overall HR function, recruitment, training and development, compensation, benefits, and organizational effectiveness. The survey provides the utilization percentage of metrics in each key area of HR. The five metrics most frequently utilized by organizations are listed below:²⁴

- **HR Function**—Measures the cost and impact of the HR function as a whole

Overall HR Function Metric	Utilization
Total Operating Cost of the HR Function	84%
HR to FTE Ratio	78%
HR Cost per Employee	50%
Activity-Based Measure of HR Cost	34%
Productivity of Individual HR Employees	17%

- **Recruitment**—Measures the speed, cost, and effectiveness of the staffing function

Recruitment Metric	Utilization
Time to Fill	68%
New Hire Turnover	63%
Cost per Hire	60%
Cost of Individual Recruiting Components	57%
Applicant Conversion Rate	45%

- **Training and Development**—Measures the cost, quality, and impact of training and non-training development

Training and Development Metric	Utilization
Satisfaction of Training Participants	80%
Total Training Cost	71%
Employees Who Participate in Formal Training Each Year	63%
Quality of Training Content Delivered	63%
Average Number of Training Hours per Year	52%

- **Compensation**—Measures include competitiveness, effectiveness, and cost of employee compensation

Compensation Metric	Utilization
Competitiveness of Compensation Package	83%
Compensation Cost as a Percentage of Total Operating Expense	67%
Employee Satisfaction with Compensation Packages	61%
Total Annual Cost of Compensation Design and Administration	53%
Difference in Compensation Between High Performers and Low Performers	38%

APPENDIX A: FREQUENTLY UTILIZED HR METRICS (CONTINUED)

- **Benefits**—Measures include competitiveness, effectiveness, and cost of employee benefits

Benefits Metric	Utilization
Competitiveness of Benefits Packages	79%
Employee Satisfaction with Benefits Packages	69%
Cost of Employee Benefits as a Percentage of Total Operating Expense	69%
Total Annual Cost of Benefits Design and Administration	62%
Employee Satisfaction with Benefits-Related Transactions	40%

- **Organizational Effectiveness**—Measures include workforce effectiveness, productivity, skill levels, and turnover

Organizational Effectiveness Metric	Utilization
Turnover by Employee Segment	87%
Percentage of Employees Indicating "Overall Satisfaction" During Most Recent Employee Survey	79%
Diversity Representation for Management Versus Non-Management Positions	74%
Percentage of Job Openings Filled by Internal Candidates	67%
Rate of Internal Transfers	55%

Three Most Utilized HR Metrics:

- Turnover by employee segment
- Total operating cost of the HR function
- Competitiveness of compensation package

APPENDIX B: HR METRICS COMPUTATIONS

The 1998 Human Resources Financial Report produced by the *Saratoga Institute* identifies how HR metrics are calculated. Below are examples of metrics computation in each of the six HR categories:²⁵

- **HR Function**—Measures the cost and impact of the HR function as a whole
 - **HR to FTE Ratio**—Indicates the number of employees that each HR employee supports in the organization. Full Time Employees (FTEs) account for the actual hours worked within an organization. One FTE corresponds to one person working 40 hours per week for a total of 2080 hours per year (40 hours x 52 weeks). To calculate FTE numbers, add up the total hours worked for the year and divide by 2080. Total hours include overtime, but do not include vacation or sick time. HR FTEs include full and part-time regular employees as well as temporary, seasonal, contract and leased workers.

$$\text{HR to FTE Ratio} = \frac{\text{Total FTEs}}{\text{Total HR FTEs}}$$

- **HR Cost per Employee**—This measures how many dollars are allocated to the HR department for each employee. HR expense is the total HR department expenditures, both internal and external.

$$\text{HR Cost per Employee} = \frac{\text{Total HR Expense}}{\text{Total FTEs}}$$

$$\text{HR to FTE Ratio} = \frac{\text{Total FTEs}}{\text{Total HR FTEs}}$$

APPENDIX B: HR METRICS COMPUTATIONS (CONTINUED)

▪ **Recruitment**—Measures the speed, cost, and effectiveness of the staffing function

- **Time to Fill**—Shows the average number of days it takes from the date the requisition is received until an offer is accepted. Requisition is when a replacement or add position becomes available. The total days to fill are not an average per hire and do not include college hires. Add hires are people hired into newly-approved positions; replacement hires are people hired into already existing positions within the organization.

$$\text{Time to Fill} = \frac{\text{Days to Fill}}{\text{Add + Replacement Hires}}$$

- **Cost per Hire**—Hiring costs have six driving factors: advertising, agency and search firm fees, referral bonuses, travel costs, relocation costs, and company recruiter costs. These costs account for 90 percent of the cost per hire. To obtain the full cost of hire, add 10 percent to the sum of all components to account for all other expense items such as testing, reference checking and other minor expenses. Total hires equal add hires plus replacement hires.

$$\text{Cost per Hire} = \frac{\text{Total Hiring Cost} \times 1.1}{\text{Add + Replacement Hires}}$$

- **Applicant Conversion Rate**—Extended offers include all offers extended to external candidates for new and replacement positions. This measurement does not include candidates recruited through a college recruiting program. Accepted offers are the total number of candidates who accepted an offer and began employment.

$$\text{Applicant Conversion Rate} = \frac{\text{External Offers Accepted}}{\text{External Offers Extended}}$$

▪ **Training and Development**—Measures the cost, quality, and impact of training and non-training development

- **Total Training Cost**—Includes costs associated with travel, meals, materials, printing, equipment, facilities, and the salary and benefits allocation of the trainers and of the participants for the time they dedicate to training. This can be used to calculate the total training cost per employee trained and the training cost as a percentage of operating expense.

$$\text{Training Cost per Employee Trained} = \frac{\text{Total Training Cost}}{\text{Employees Trained}}$$

$$\text{Training Cost as a Percentage of Operating Cost} = \frac{\text{Total Training Cost}}{\text{Operating Expense}}$$

- **Average Number of Training Hours per Year**—Hours of training includes all formal training hours delivered by internal and external trainers to exempt and nonexempt employees. Total employees trained include exempt and nonexempt employees.

$$\text{Average Number of Training Hours per Year} = \frac{\text{Hours of Training}}{\text{Employees Trained}}$$

$$\text{Cost per Hire} = \frac{\text{Total Hiring Cost} \times 1.1}{\text{Add + Replacement Hires}}$$

$$\text{Training Cost per Employee Trained} = \frac{\text{Total Training Cost}}{\text{Employees Trained}}$$

There is an increasing need to measure compensation as a driver of separation and staffing activities.
 —Corporate Leadership Council

Organizational effectiveness measures provide top management with a good overview of how the company is performing as a whole.
 —Saratoga Institute

APPENDIX B: HR METRICS COMPUTATIONS (CONTINUED)

- **Compensation**—Measures the competitiveness, effectiveness, and cost of employee compensation

- **Compensation Cost as a Percentage of Total Operating Expense**—Indicates the percent of operating expense that goes to the compensation cost of the company. Compensation costs include the following:

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| • Salaries | • On-call pay |
| • Wages | • Payment for time not worked |
| • Performance awards and bonuses | • Vacation and holiday |
| • Overtime and pay premiums | • Sick leave |
| • Commissions | • Authorized time off |
| • Profit sharing | • Severance |
| • Military duty pay | • All other cash incentives |

$$\text{Compensation Cost as a Percentage of Total Operating Expense} = \frac{\text{Compensation Costs}}{\text{Operating Expense}}$$

- **Benefits**—Measures the competitiveness, effectiveness and cost of employee benefits

- **Cost of Employee Benefits as a Percentage of Total Operating Expense**—Includes the total cost incurred by the employer for benefit program. These costs include:

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|-------------------------------|------------------------------------|
| • Legally required payments | • Other medically related benefits |
| • Retirement and savings plan | • Profit sharing |
| • Life Insurance | • Military duty pay |
| • Death benefits | • Payments for time not worked |
| • Medical benefits | • All other benefit payments |

$$\text{Cost of Employee Benefits as a Percentage of Total Operating Expense} = \frac{\text{Benefit Costs}}{\text{Operating Expense}}$$

- **Organizational Effectiveness**—Measures the workforces effectiveness, productivity, skill levels, and turnover

- **Turnover by Employee Segment**—Turnover rate shows the percent of employee leaving for any reason. Total separations include voluntary and involuntary separations. Full and part-time headcounts are the average number of employees the company has on its payroll, regardless of how many hours they worked.

$$\text{Turnover by Employee Segment} = \frac{\text{Total Separations}}{(\text{Full-Time} + \text{Part-Time}) \text{ Headcount}}$$